



ILLUSTRATIVE

ACCOUNTING PROCEDURES FOR FEDERAL AGENCIES

APPLICATION OF THE ACCRUAL BASIS OF
ACCOUNTING AND SIMPLIFIED FUND CONTROL
PROCEDURES FOR AGENCIES AND PROGRAMS
HAVING PREDOMINANTLY PERSONAL SERVICE COSTS

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UNITED STATES GENERAL ACCOUNTING OFFICE

1962

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simplified fund control procedures for agencies and
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Introduction

The primary purpose of this booklet is to provide an illustration of simple but acceptable accounting and fund control procedures for Federal agencies, the principal expenditures of which are for personal services.

The question is sometimes raised as to whether the accrual basis of accounting should be employed in Federal agencies and programs having predominantly personal service costs. The answer to this question is that such basis should be employed. This booklet undertakes to explain and illustrate practical and simple methods of accounting on the accrual basis and fund control for this kind of agency. The procedures demonstrated, however, may be adapted in varying degrees to more complicated operations where significant amounts of expenditures are for other than personal services.

The procedures illustrated will satisfy the objectives of law and applicable principles and standards relating to accrual accounting and fund control and will also assist in the attainment of efficient and economical management. The illustrations and the principles and procedures described are intended to be of assistance to Federal agencies in developing and improving their accounting systems to the point where they may be approved by the Comptroller General. Primary emphasis is placed on problem areas; the procedures illustrated do not cover all aspects of an agency's accounting system.

The principles and standards of accounting contained in part I represent prescribed requirements. However, the procedures illustrated in part II are not prescribed. They are suggestive of the kind of practical, simplified, and acceptable procedures that can be applied to accomplish the several interrelated objectives of Federal agency accounting systems stated by the Congress in law. In this framework, the material is presented in clarification of the principles, standards, and related requirements for accounting which have been prescribed by the Comptroller General of the United States.

Representatives of the General Accounting Office are available to advise and consult with agency officials and employees on these matters.

PART I

Principles and Standards of Accounting

Basic Purpose of Accounting

The fundamental purpose which underlies the accounting of a Federal agency is to discharge the inherent management duty to render an accounting for the resources and operations for which it is responsible and to provide information necessary for effective and economical management of such resources and operations. This duty requires the maintenance of a suitable system of financial and related records from which needed information on resources, liabilities and obligations, revenues, and costs can be obtained and reported for the information and control use by appropriate levels of management; other agencies and authorities having control responsibilities; the Congress; and ultimately, the public.

Objectives of Federal Agency Accounting Systems

The principal objectives of the accounting systems of Federal agencies, as stated in the Budget and Accounting Procedures Act of 1950 (31 U.S.C. 66a), are:

1. Full disclosure of the financial results of agency activities.
2. Production of adequate financial information needed for agency management purposes.
3. Effective control over and accountability for all funds, property, and other assets for which each agency is responsible.
4. Reliable accounting results to serve as the basis for preparation and support of the agency budget requests, for controlling the execution of budgets, and for providing financial information required by the Bureau of the Budget.
5. Suitable integration of agency accounting with the central accounting and reporting operations of the Treasury Department.

Notwithstanding that achievement of the foregoing objectives requires application of the accrual basis of accounting, the above law was amended by Public Law 863, approved August 1, 1956 (31 U.S.C. 66a(c)), to provide specifically that the head of each executive agency shall cause the accounts of his agency to be maintained on an accrual basis to show the resources, liabilities, and costs of operations with a view to facilitating the preparation of cost-based budgets. Specific provision was also made for monetary property accounting and the use of cost-based budgets in agency administration and operation. Thus, the basis of accounting to be used by Federal agencies for the purpose of providing adequate records of financial transactions entered into is the accrual basis. As part of a properly integrated accounting system maintained on the accrual basis, appropriate data on obligations incurred and liquidated must also be recorded to provide information to assist in controlling expenditures and reporting on the status of appropriations.

The control objectives cited in items 3 and 4 above reflect the need to comply with the specific requirements and limitations of such laws as R.S. 3679 (the Antideficiency Act). One of the principal purposes of this act is to prevent the incurring of obligations or the making of expenditures in such a way as to create deficiencies in appropriations and to fix responsibility within an agency for excess obligations or expenditures. Adoption of the accrual basis of accounting does not mean the abandonment of fund control (i.e., control of obligations to prevent overexpenditures and to accomplish the economical and efficient use of funds). Since appropriations are made in terms of obligational authority, it is necessary to accumulate financial data on obligations to measure the status of appropriations. An agency's system of recordkeeping, and the related procedures, must therefore be designed to accomplish this as well as other purposes. Proper application of the accrual basis appropriately supplemented by procedures specifically designed for fund control purposes will not only produce reliable information on costs, income, assets, and liabilities, but also all necessary information relating to obligations incurred, liquidated, and outstanding that is needed for financial control, budget, and other financial management purposes.

Practical Standards

In devising suitable accounting systems for Federal agency activities, the several objectives prescribed by law have to be considered.

In working toward these objectives, certain practical standards must also be recognized.

1. Simplicity

The procedures should be as simple and readily understandable as practicable, consistent with the nature of the operations and resources being accounted for. Simplicity is needed as a matter of efficiency and economy in the accounting process and to promote reliability of results.

2. Usefulness

The overall objectives of accounting to produce information for financial control, accountability, and reporting purposes must be sought. However, unnecessary records and excessive details and refinements should be avoided.

3. Relative accuracy, reliability, and materiality

Accounting processes require many estimates and judgments. Undue precision in measuring the financial aspects of many kinds of transactions is not justified where judgment is a significant factor. The objective should be to produce expeditiously financial data that is useful and reasonably reliable for control, information, and accountability purposes, and is not misleading.

All transactions occurring during an accounting period should be recorded in the accounts and their effect included in the financial reports. However, in determining the extent of summarization to be made in the accounts and reports, and the preciseness of making allocations of cost and income and of computing items where estimates have to be employed, due consideration should be given to the materiality and relative signifi-

cance of the items involved. In such operations, meticulous and extensive procedures which do not produce materially more accurate results or provide other offsetting benefits should be avoided.

Certain Minimum Requirements for Accounting Systems

An accounting system of a Federal agency which is currently maintained on a cash and obligation basis, insofar as accounting for assets, liabilities, income, and expense is concerned, with provision but once each fiscal year for conversion of the data recorded to an accrual basis in connection with the annual congressional budget, does not comply with the spirit and intent of either the laws enacted by the Congress relating to the accrual basis of accounting or with the principles and standards for accounting prescribed by the Comptroller General pursuant to those laws.

Where this kind of a system is employed, the primary emphasis in the internal financial management processes tends to be on spending available funds and preventing overexpenditures. Prevention of overobligation and overexpenditure of appropriated funds (or other spending authority) is essential and must be provided for in any system. Therefore, the accounting system must produce adequate information on the status of appropriations and other data on obligations incurred for purposes of effective fund control and budget presentations. The policy of the Congress, as reflected in the Budget and Accounting Procedures Act of 1950 and Public Law 863, approved August 1, 1956, is to have Federal agencies work toward financial management systems that not only will prevent overexpenditures but will also promote the use of cost information and cost-consciousness in the management of Federal agency operations. This approach should help to achieve greater efficiency and economy and to eliminate cumbersome fiscal procedures that are not only costly to carry out but encourage management emphasis on spending available funds rather than on operating in an economical manner.

For purposes of accounting systems design and planning, the minimum requirement for converting recorded cash disbursement data to an accrual basis is that such conversions should be made monthly. Conversion at less frequent intervals would generally not provide information sufficiently current to be useful to agency officials in managing operations. Monthly cost data thus produced should be reported for the information and use of the agency management by responsibility areas and should include appropriate comparisons.

In addition, the use of allotment procedures for controlling the obligation and expenditure of funds must be restricted so that they are made only at highest practical levels. Allotment accounts should not be used as a means of accumulating the distribution of charges by activity and by object of expenditure. An accounting system which provides for or is based on detailed and multiple allotments to relatively low levels within an agency and does not provide for the accumulation of costs on the accrual basis by budgeted areas of activity cannot be approved under the standards and objectives of accounting and financial management set forth in law, including R.S. 3679, as amended by Public Law 863 (31 U.S.C. 665(g)).

One of the reasons underlying the passage of the Budget and Accounting Procedures Act of 1950, as amended by Public Law 863, approved August 1, 1956, was that the obligation basis of accounting, used generally by

most agencies of the Federal Government as the primary basis of accounting, was not adequate to meet all of the objectives and requirements of a modern financial management system. The incurrence of obligations does not always coincide with the acquisition of assets, the incurrence of actual liabilities, or the consumption or application of resources in the performance of operations. Hence, the recording of financial transactions only on the basis of obligations incurred does not produce adequate information on assets, liabilities, and expenses.

To attain the objectives of financial management envisioned under the Budget and Accounting Procedures Act of 1950, as amended, and the principles, standards, and related requirements prescribed by the Comptroller General requires the development of an accounting system on the accrual basis, including appropriate provision for fund control and the development of adequate information on obligations incurred, liquidated, and outstanding so that all essential management requirements can be satisfied.

PART II

Illustrative Procedures and Transactions

Summary of System Illustrated

The procedures described in this part are related to a hypothetical agency to illustrate a simple method of controlling obligations incurred, a satisfactory approach to the accrual basis of accounting, and the relationship between these two financial management functions.

A hypothetical rather than an actual agency has been used for illustrative purposes in order to highlight the procedures in most need of emphasis and to avoid diversion of attention to the peculiarities of a specific agency's operations.

Obligation of funds is controlled at the appropriation level by the use of an obligation register which is used to assist in preventing the over-obligation of the appropriation and otherwise in managing the utilization of funds.

The budget for individual activities is prepared in advance in terms of estimated costs. Monthly reports are prepared in which actual costs are compared with such cost-based budgets for each appropriate level of management.

Only one allotment of funds is made for the entire agency.

The agency's accounts are maintained on an accrual basis by the use of the technique of recording expenditure transactions during the month on a cash basis and by recording accruals only at the end of the month for liabilities incurred but not paid.

The system illustrated is summarized graphically on the chart on pages 12 and 13.

The system illustrated in this booklet can be maintained either manually or by appropriate machine application. The decision to use or not to use machine techniques would be governed by considerations other than those covered by this booklet and the fact that the system illustrated appears to be on a manual basis should not be considered as a guide to agency action.

The records and reports included in this booklet are for illustrative purposes only. Each agency should make necessary adaptations to fit its own needs.

Description of Illustrative Agency

Financial and organizational features

For the purpose of this illustration, the following conditions are assumed to exist:

1. Operations are financed by a single appropriation by the Congress each year.
2. Expenditures are principally for salaries, travel, and other administrative expenses.

3. The organization consists of an administrator's office, an office of administrative services, and two operating divisions, A and B.
 - a. The office of administrative services is responsible for those services which support the principal programs of the agency and include legal, budgeting and accounting, internal audit, personnel, procurement, and other service functions.
 - b. Division A has no branches and division B has three branches. Branch No. 1 is working on three separate projects.
4. Under the activity structure adopted, program activities have been made to coincide with the organization units responsible for carrying them out. This has been done for simplicity of presentation even though, in practice, such activities often cut across organizational lines. Based on these assumptions, the activity classifications used in the budget, and their relationship to organization units, are as follows:

<i>Program by activities</i>	<i>Organization</i>
Operating costs:	
Activity A.....	Division A.
Activity B.....	Division B, Branch No. 1.
Activity C.....	Division B, Branch No. 2.
Activity D.....	Division B, Branch No. 3.
Activity E.....	Administrator's Office and Office of Administrative Services.
Capital outlay: Equipment.....	Office of Administrative Services.

A further subdivision of Activity B is provided for in the cost-based financial plan underlying the budget, which is used for internal administration and operation and for budget justification purposes, as follows:

Subactivity B1.....	Project (A).
Subactivity B2.....	Project (B).
Subactivity B3.....	Project (C).

5. Although field offices or other decentralized accounting entities are not illustrated herein, the basic accounting methods described in this booklet are readily adaptable to decentralized accounting operations.

Organization chart

The assumed organizational and activity structure of the agency is charted as shown on the following page.

Financial control system

A single allotment for the entire agency is made to the head of the Office of Administrative Services.

Personnel actions and major procurement have to be approved centrally by the Office of Administrative Services. Each organizational segment may incur obligations for travel and minor procurement in accordance with established operating plans and related cost-based budgets.

A central record of obligations incurred is kept for the purpose of preventing overobligation of the appropriation. This record is called the obligation control register and is used in place of the conventional allotment ledger.

Administrator's office, an office of operating divisions, A and B. Services is responsible for those principal programs of the agency and accounting, internal audit, other service functions. Division B has three branches working on three separate

program activities have been organization units responsible for one for simplicity of presentation. Activities often cut across or cross assumptions, the activity and their relationship to organi-

Organization

Division A.
 Division B, Branch No. 1.
 Division B, Branch No. 2.
 Division B, Branch No. 3.
 Administrator's Office and Office of Administrative Services.
 Office of Administrative Services.

3 is provided for in the cost- budget, which is used for on and for budget justification

- Project (A).
- Project (B).
- Project (C).

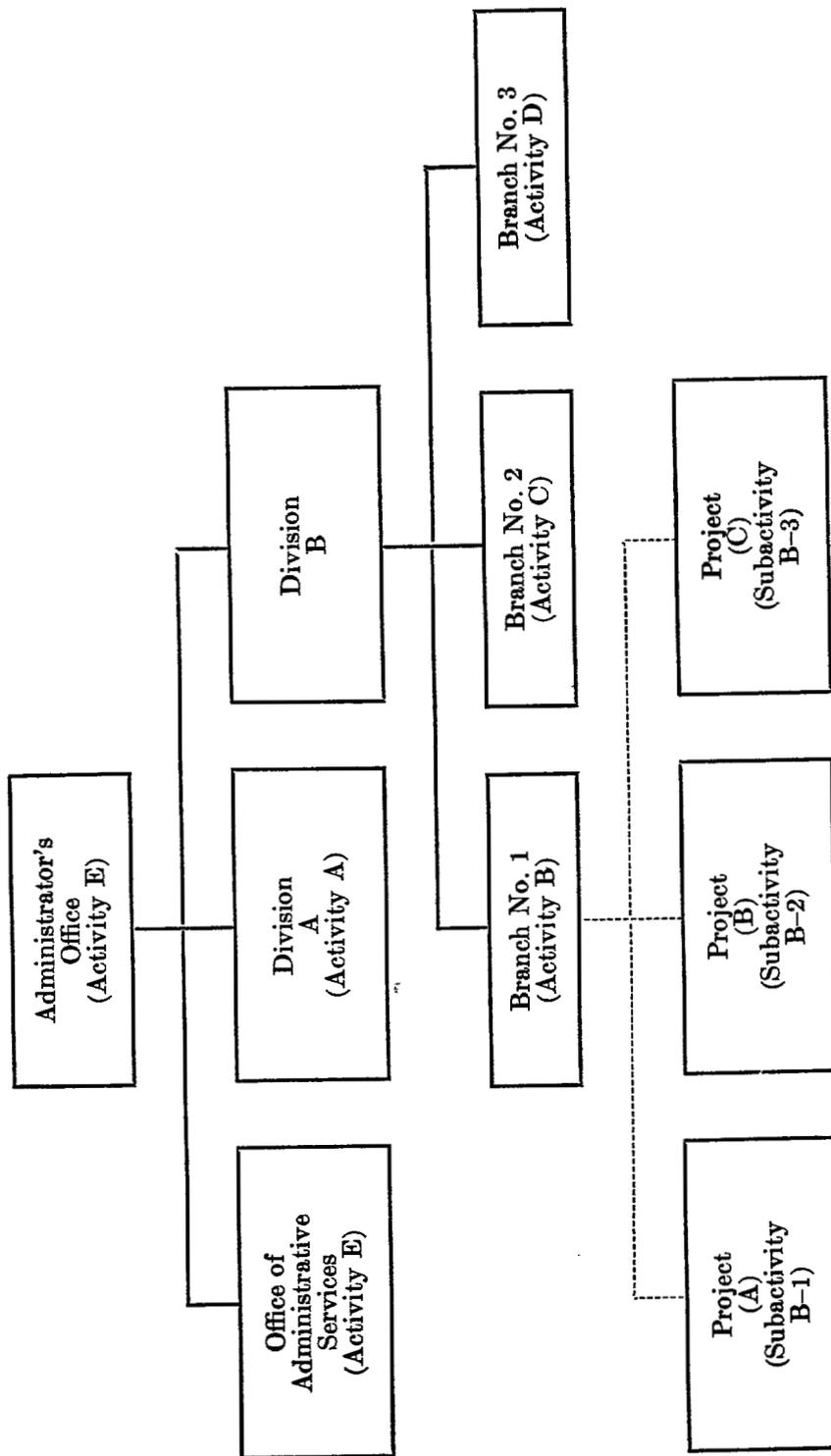
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Financial control of costs of the divisions and subordinate units is maintained through the use of cost-based operating budgets. These cost-based budgets are segregated into monthly budgets for each activity and project.¹ Each responsible official receives at the end of each month a report comparing actual costs for his activity with the approved budget. (See p. 25.) Each manager of an organizational unit may exceed individual cost items in his budget as long as he does not exceed the total budgeted cost of the activity for which he is responsible. The degree of flexibility to be permitted in deviating from cost-based operating budgets is a matter to be worked out by each agency.

Accounting records

The agency's accounts are maintained centrally.

The following is a list of those accounting records which are pertinent to this illustration. It does not include all records that an actual agency would need:

- Journal vouchers
- Obligation control register
- Cash disbursements register
- General ledger
- Subsidiary ledgers
- Supporting fiscal and accounting documents

A chart of general ledger accounts used by the agency follows. The chart includes only those accounts used in this illustration and not all of the accounts which would generally be used by an agency of this type.

Chart of Accounts

<i>Account No.</i>	<i>ASSETS</i>
1004	Fund Balances With U.S. Treasury—Current Year—4421234
1005	Fund Balances With U.S. Treasury—Prior Year—4411234
1006	Deposit Fund F0101 (Taxes)
1007	Deposit Fund X6050 (Bonds)
1114	Advances to Employees for Travel
1524	Equipment
1525	Office Furniture and Fixtures
1526	Accumulated Depreciation—Equipment
1527	Accumulated Depreciation—Office Furniture and Fixtures

LIABILITIES AND INVESTMENT OF THE U.S. GOVERNMENT

Liabilities

2004	Accounts Payable—Government Agencies
2005	Accounts Payable—Others
2006	Accrued Transportation and Travel Allowances
2007	Other Accrued and Unbilled Liabilities
2008	Liability for Federal Income Taxes Withheld
2009	Liability for FICA Taxes Withheld
2010	Liability for Employer's Share of FICA
2011	Liability for Deductions From Employees' Pay for Bond Purchases
2504	Accrued Annual Leave

¹The use of projects in this illustration is not intended to imply that such a breakdown of the accounts would be appropriate in all instances. This is a determination that will have to be made in each case.

Investment of the United States Government

Appropriation Accounts:

3024 Unapportioned Appropriation—Current Fiscal Year
 3025 Unallotted Apportionments—Current Fiscal Year
 3027 Unobligated Allotments—Current Fiscal Year
 Unliquidated Obligations:
 3028 Current Fiscal Year
 3029 Prior Fiscal Year
 Expended Appropriation:
 3030 Current Fiscal Year
 3031 Prior Fiscal Year
 3032 Investment of the United States Government

Expenses

5100 Activity A—Division A
 5200 Activity B—Division B, Branch No. 1
 5300 Activity C—Division B, Branch No. 2
 5400 Activity D—Division B, Branch No. 3
 5500 Activity E—Administrator's Office and Office of Administrative Services

Notes regarding chart of accounts

1. Accounts for payroll deductions for amounts to be remitted to the Civil Service Commission have been omitted from the chart of accounts since they are in the nature of memorandum accounts.
2. Subsidiary records of equipment and office furniture and fixtures are maintained on a composite class basis in lieu of individual item records.
3. The subsidiary records in support of the accounts payable control account consist of the unpaid documents filed by payee.
4. Appropriate subsidiary ledgers are maintained to accumulate costs by category of expense for each activity and for each project within an activity.
5. In this illustration, the general ledger control accounts for expenses are maintained by the principal areas of budgeted activity and responsibility. These expense control accounts could, alternatively, be maintained by category of expense. Under this approach, the category of expense control accounts in the general ledger could be established as follows:

5004 Personnel Compensation
 5005 Personnel Benefits
 5006 Travel and Transportation of Persons
 5007 Transportation of Things
 5008 Rent, Communications, and Utilities
 5009 Supplies and Materials
 5010 Depreciation Expense
 5011 Annual Leave Expense

In addition, separate subsidiary accounts would be maintained for each activity and for each of the projects under Activity B, Branch No. 1.

Illustration of Transactions

Apportionment of funds

The appropriation received from the Congress for the current fiscal year was \$6,264,000. Quarterly apportionments approved by the Bureau of the Budget were as follows:

Quarter:	<i>Amount</i>
1st -----	\$1, 521, 000
2d -----	1, 521, 000
3d -----	1, 521, 000
4th -----	1, 521, 000
Total amount apportioned -----	6, 084, 000
Reserve -----	180, 000
Total appropriation -----	6, 264, 000

Journal entries to record the appropriation, apportionment, and first quarter allotment are as follows:

July 1, JV 1

1004—Fund balances with U.S. Treasury.....	\$6,264,000	
3024—Unapportioned appropriation—current fiscal year.....		\$6,264,000
To record appropriation received.		

July 1, JV 2

3024—Unapportioned appropriation—current fiscal year.....	\$6,084,000	
3025—Unallotted apportionments—current fiscal year.....		\$6,084,000
To record apportionment for current fiscal year.		

July 1, JV 3

3025—Unallotted apportionments—current fiscal year.....	\$1,521,000	
3027—Unobligated allotments—current fiscal year.....		\$1,521,000
To record first quarter allotment for current fiscal year.		

Control of obligations (fund control)

Use of obligation control register

An obligation control register² is used for the one appropriation made to the agency. This control record is in addition to the use of budgets for controlling the costs of each organizational segment. The cost budgets are converted into obligational requirements for the agency as a whole as often as the circumstances require.

An obligation for personal services of permanent employees is recorded at the beginning of each month for the entire month because payrolls for such a short period can be estimated with a high degree of accuracy. Obligations relating to temporary employees are recorded separately as soon as the information is available.

Obligations for travel are recorded on the basis of group posting of individual travel orders.³ All other items are recorded, using group posting wherever possible, on the basis of individual obligating documents such as purchase orders, contracts, etc.

The procedures illustrated result in entering obligations in the control register in some instances prior to the time they technically become valid obligations as defined in section 1311 of Public Law 663, approved August 26, 1954 (31 U.S.C. 200). At the end of each month, however, and at such other times as reports of obligations incurred may be required, adjustment to the obligations recorded in the control register is made to conform the recorded amounts to agree with requirements of law and regulations. To the extent that entries in the obligation control register are made prior to actual incurrence of obligations, the register does not, of course, constitute an official record of legal obligations incurred. Until such time as entries in the control register are adjusted as provided for herein, the control register functions primarily as a means for precluding the overobligation of available appropriations, and only after adjustment does the register become a record of obligations.

² The accounting systems of several Federal agencies provide for the maintenance of an obligation control register similar to the one illustrated in this booklet.

³ As an alternative, travel costs could be estimated for the entire month and recorded at the beginning of the month. Also other items of a recurring nature could be entered in a lump sum at the beginning of the month supported by a schedule of the details.

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chedule of the details.

The recording of certain types of items in the obligation control register before they become valid obligations against the appropriation facilitates financial planning. When a relatively fixed charge, such as payroll, can be estimated in advance with a high degree of accuracy, it enables an earlier determination of the amount available for other items and thereby is an aid to financial planning. An earlier decision can then be made on the necessity or desirability to revise plans to avoid an overobligation of funds. However, some agencies may prefer to record individual items in the obligation control register as they become valid obligations if this procedure provides a satisfactory record on the basis of which overobligation of appropriations can be prevented or other management decisions made.

The obligation control register contains columns for date, reference to obligation document, explanation of obligation including type of item, and columns for amounts of obligations incurred and unobligated balance.

An illustration of the obligation control register showing a number of hypothetical transactions follows:

Obligation Control Register

Appropriation Symbol: 4421234

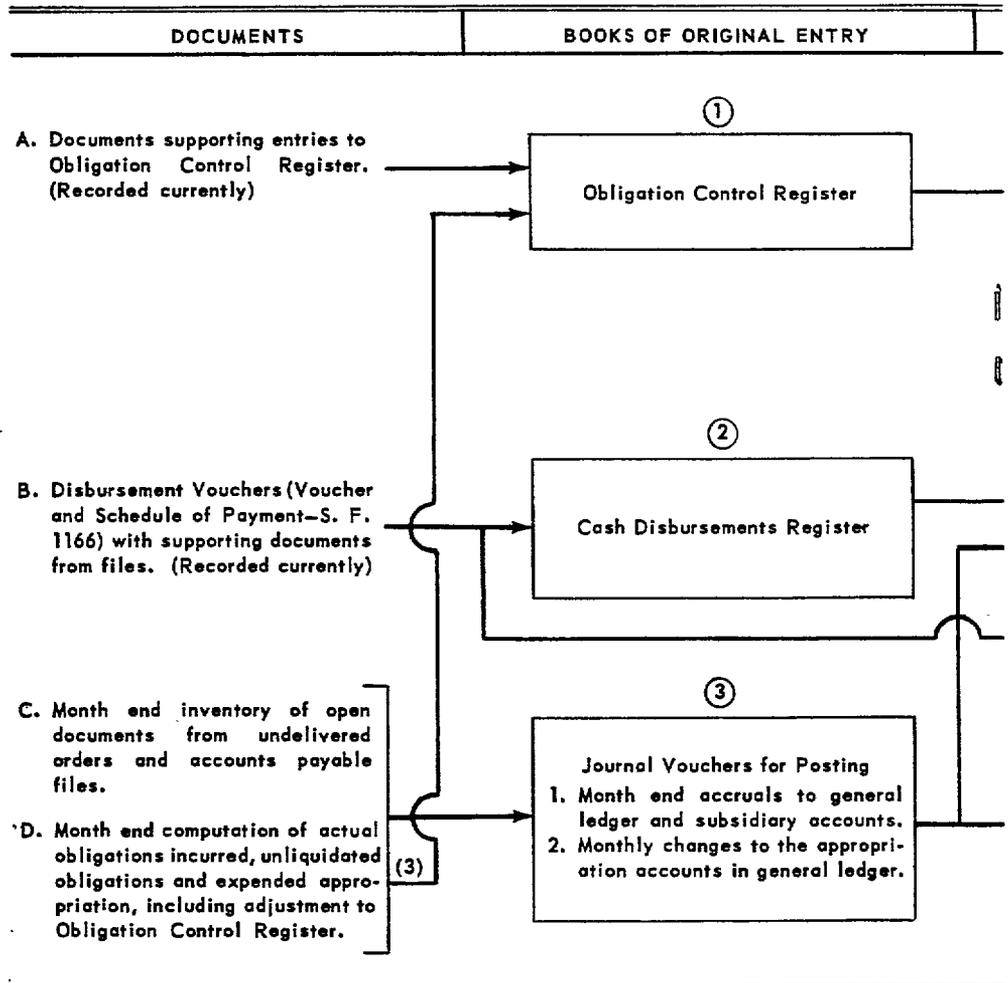
Date	Document reference	Explanation	Amount obligated	Unobligated balance
July 1	AA-1-----	1st quarter allotment—current fiscal year-----		\$1,521,000.00
3	WP-1-----	Regular payrolls for the month of July-----	\$352,511.00	
	P.O. 98180-----	Purchase of chemicals—Chemical Manufacturing Co.-----	429.60	1,168,059.40
5	P.O. 98181-----	Purchase of 4 cameras—ABC Optical Corp-----	8,000.00	1,160,059.40
7	Batch No. 9-----	Travel orders for July 7-----	1,125.00	1,158,934.40
8	WP-2-----	Temporary payroll for 1 week, July 10-14-----	1,024.00	1,157,910.40
19	P.O. 98185-----	Purchase of supplies and material—XYZ Co.-----	7,000.00	1,150,910.40
24	Letter-----	P.O. 98185 canceled-----	(7,000.00)	1,157,910.40
		All other obligations during July (not detailed for purposes of illustration).-----	149,845.72	1,008,064.68
31	WP-3-----	To adjust unobligated balance for difference between amounts recorded and actual amount of obligations incurred in July. (See computation on p. 15.)-----	(83.64)	1,008,148.32

The payroll entry for July of \$352,511.00 consists of a partial payroll for the first 8 days of the month, the 2 weeks' payroll ended July 22, and accrued payroll of 9 nine days from July 23-31, as follows:

Partial payroll for period ended July 8—8 days-----	\$113,954.00
Payroll for period ended July 22-----	166,702.00
Accrued payroll July 23-31-----	71,855.00
Total-----	352,511.00

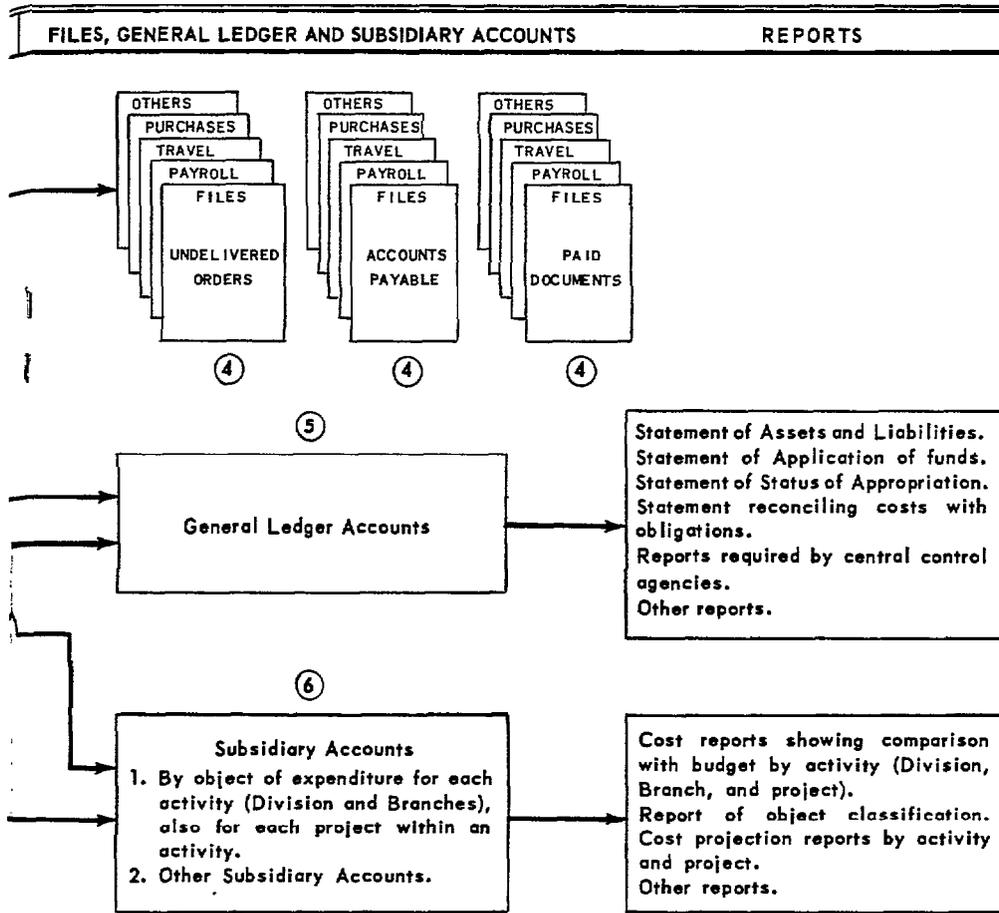
Liquidation of individual obligations is not posted to the register. Cancellations of obligations or adjustments for inaccurate estimates, where significant in amount, are made during the month. Otherwise, one adjustment is made at the end of the month for any differences between the total amount recorded in the obligation register and the total amount of actual obligations incurred during the month. (See computation of adjustment on p. 15.) This procedure produces the same results at the end of each month as would be produced with a conventional allotment ledger and avoids the work involved in recording the liquidation of individual obligations throughout the month.

CONDENSED GRAPHIC PRESENTATION OF



- ① Obligating documents, such as purchase orders, invoices, contracts, travel orders, estimated payrolls, etc., posted currently to Obligation Control Register and filed.
- ② Disbursement vouchers (S. F. 1166) properly coded, posted to Cash Disbursements Register and subsidiary accounts.
- ③ Month end inventory of undelivered orders and accounts payable documents, plus data from Cash Disbursements and Obligation Control Registers used to obtain obligations incurred, unliquidated obligations, expended appropriation, and net adjustment required to Obligation Control Register. This information posted to applicable general ledger accounts and Obligation Control Register. Accruals from inventory of accounts payable documents properly coded, posted by journal voucher to applicable general ledger and subsidiary accounts. Documents stamped to indicate accruals posted.

THE ILLUSTRATED ACCOUNTING SYSTEM



- ④ The flow of all documents in and out of the files has not been charted. For example, evidence indicating receipt of goods and services would be attached to obligating documents and placed in accounts payable files and when paid transferred to paid document files.
- ⑤ Cash Disbursements Register totals and accruals posted to general ledger accounts at end of month.
- ⑥ Details in subsidiary accounts should agree with applicable control accounts in general ledger.

Prevalidation of obligations

One method of assuring that obligations are incurred only when there is an unobligated balance available for the purpose is to require validation of each obligating document prior to its release. This procedure requires that all such documents flow to the individual responsible for maintaining the obligation control register where a determination is made as to whether the unobligated balance is sufficient to cover the proposed obligation.

In this illustration, no provision was made for prevalidation of obligations. For the type of agency illustrated with obligations controlled at the appropriation level, it should not be necessary to prevalidate obligations as a general rule, because effective planning, including projections of the effect of future operations, should provide ample warning of the likelihood of overobligating available funds.

Because of the many and varied situations which exist throughout the Government, however, there are instances when it is necessary to use prevalidation techniques. Usually, however, for agencies of the type used in this illustration, this procedure should be needed, if at all, only for temporary periods until plans can be adjusted to operate within the limits of available funds or until additional authority can be obtained.

Document control

Documents in support of outstanding obligations are kept under good physical control at all times. Separate files, by appropriation and fiscal year, are kept for each of the principal types of obligations such as payroll, travel, purchases of all types, communication services, etc. The obligation document files are further segregated between undelivered orders and accounts or accrued payables and are maintained in current condition to accurately disclose the details of these two categories of obligations. As items are processed for payment, the obligation documents are removed from the obligation file and attached to the related vouchers.

Basis of entries to appropriation accounts and adjustment of obligation control register

Since no allotment ledgers or other running record of total obligations incurred, unliquidated obligations, and expended appropriation are maintained during the month, this information is computed as of the end of each month for recording in appropriate general ledger accounts.

As a part of the process of computing these items, information is obtained to adjust the obligation control register to agree with the total of the actual obligations incurred during the month.

The above information is computed in the following manner:

1. Take the month-end total of the cash credit column for the current appropriation from the cash disbursements register, reduce this figure for disbursement items that do not represent obligations, such as travel advances.
2. To the figure in item 1 above, add or subtract the increase or decrease in accounts payable and accrued liabilities as shown by an inventory of the related documents. The result is the amount of expended appropriation on an accrual basis for the month.
3. To the expended appropriation (item 2) add or subtract the increase or decrease in outstanding obligations for which goods and

services had not been received (sometimes referred to as undelivered orders) as shown by an inventory of the related documents. The result is the total obligations incurred during the month.

4. Compare the total obligations incurred during the month with the total amount of obligations recorded in the obligation control register for the month. The difference represents the amount by which the unobligated balance in the obligation control register should be adjusted.

Prior to making the computation, an inventory is taken at the end of each month of the outstanding obligation documents segregated between (1) delivered orders for which payment has not been made (accounts and accrued payables), and (2) undelivered orders. The results of such inventory as of July 31 are summarized as follows for appropriation 4421234:

Accounts payable:			
Government agencies:			
Payroll (deductions and employer's contributions) ..	\$27,065.75		
Materials and supplies	1,720.00		
Rents, communications, and utilities	5,071.25		
			\$33,857.00
Others:			
Payroll	44,789.25		
Travel	2,071.34		
Materials and supplies	1,272.00		
Rents, communications, and utilities	2,421.24		
			50,553.83
Other accrued and unbilled liabilities:			
Travel	1,526.38		
Rents, communications, and utilities	4,072.51		
			5,598.89
Total accounts payable and other accrued and unbilled liabilities ..			90,009.72
Undelivered orders			89,350.00

The computation for this illustration, following the steps set forth above, is as follows:

<i>Item</i>	<i>Amount</i>
(All items relate to the appropriation for the current fiscal year)	
(1) Cash disbursements applicable to current appropriation (4421234) during July (from cash disbursements register—see p. 18)	\$333,851.96
Deduct:	
Disbursements during July not representing obligations—travel advances (from cash disbursements register—see p. 18)	360.00
	333,491.96
(2) Increase (or decrease) in accounts and accrued payables during July from inventory of documents (see above):	
Ending inventory July 31	\$90,009.72
Beginning inventory July 1	0
	90,009.72
(3) Expended appropriation, accrual basis	423,501.68
(4) Increase (or decrease) during July in outstanding obligations for which goods and services had not been received (from inventory of documents—see above):	
Ending inventory July 31	\$89,350.00
Beginning inventory July 1	0
	89,350.00
Unliquidated obligations July 31	89,350.00
(5) Total obligations incurred during July	512,851.68

<i>Item</i>	<i>Amount</i>
(6) As recorded in obligation control register (see p. 11) :	
Unobligated balance July 1-----	\$1, 521, 000. 00
Deduct unobligated balance July 31-----	1, 008, 064. 68
	512, 935. 32
(7) Difference representing amount by which unobligated balance in obligation control register should be increased (see p. 11)-----	83. 64

Since the illustration covers the first month of the new fiscal year and the current appropriation became available July 1, there were no outstanding obligations applicable to this appropriation at the beginning of the month. The outstanding obligations as of the close of the previous month would apply to the prior year appropriation. In subsequent months, consideration would be given to both beginning and ending balances of outstanding obligations.

The journal entry to record the above information in the appropriation accounts of the general ledger is as follows:

July 31, JV 4

3027—Unobligated allotments (4421234)-----	\$512, 851. 68
3028—Unliquidated obligations (4421234)-----	\$89, 350. 00
3030—Expended appropriation (4421234)-----	423, 501. 68
To record obligations incurred, unliquidated obligations, and expended appropriation for July.	

Journal entries are also made to record the liquidation of obligations applicable to prior year appropriations. For example, in the illustration, P.O. 98178 was recorded during the prior fiscal year as an obligation against the prior year appropriation (4411234). The equipment was received and paid for in July (see Cash Disbursements Register, Voucher No. 15, p. 18). The entry to record liquidation of this obligation is as follows:

July 31, JV 5

3029—Unliquidated obligations (4411234)-----	\$388. 00
3031—Expended appropriations (4411234)-----	\$388. 00
To record liquidation of prior year obligations during July.	

The workpapers used in computing obligations incurred, unliquidated obligations, and the expended appropriation for the month are retained as a part of the records of the agency and are used at the end of the following month for the beginning inventory of open documents.

In addition, journal entries are made to record the outstanding liabilities (accounts and accrued payables) based upon an inventory of documents (see p. 15) as shown in item (2) above. Illustration of these journal entries is contained on page 21.

Recording transactions on accrual basis

For the hypothetical agency used in this illustration, it is assumed that cost information is not needed more frequently than at monthly intervals. The accounting procedures followed therefore provide for recording expenditures during the month on a cash disbursement basis, using a cash disbursements register for this purpose, and for recording accrued but

unpaid costs at the end of the month based on an inventory of unpaid bills, invoices, or other appropriate documents and information.

This procedure is illustrated because it avoids the dual processing of payment documents (once at the time of recording the liability and again at the time of payment) for expenditure transactions that accrue and are paid in the same month. One of the requirements for good administration is that bills, invoices, and other liability documents be paid on as current a basis as practicable. If this is done, the quantity of documents to be inventoried as of the end of each month will be kept at a minimum. The question of whether the illustrated approach or the alternative of recording items currently as they accrue, or some combination of these two approaches, is one that should be decided in each case based on the particular circumstances involved.

Effective document control procedures are followed so that outstanding accounts and accrued payables can be readily determined at the end of the month from an inventory of documents in the files. (Special registers or workpapers may be maintained, where appropriate, to assist in the accrual at the end of the month of those liabilities which accrue with the passage of time, such as interest, rent, etc.) Although this method of determining accounts and accrued payables highlights the need for good document control, it should not be inferred that such control is not also essential when a satisfactory alternative is used.

The month-end accruals are charged to the costs and other affected accounts with an offsetting credit to accounts payable or other accrued liability accounts. The related disbursements made in subsequent months are charged to accounts payable or accrued liability accounts to the extent the liability was previously accrued.⁴

In order that there will be no doubt concerning the amounts which should be charged to the appropriate payable account at the time of payment in a subsequent period, each document for which an accrual is recorded is appropriately annotated to show the accrual and date.

Use of cash disbursements register

A cash disbursements register is used as a book of original entry and for summarizing for posting to the general ledger accounts the disbursement transactions scheduled for payment during the month. The original distribution in the cash disbursements register is to the activity or other affected accounts. Subsidiary accounts are posted currently during the month directly from the distribution shown on the disbursement vouchers (Voucher and Schedule of Payment, Standard Form 1166) and attachments thereto. For activity B, subsidiary accounts are maintained by category of expense for each project.⁵

⁴ Alternative procedures to accomplish the same result include (1) reversing all accruals as of the beginning of the succeeding month and recording the transactions in full on a disbursement basis, and (2) recording accruals at the end of each month and reversing accruals of the previous month on worksheets to be used only to adjust the recorded book amounts for financial statement purposes. Under the latter method, accruals should, as a minimum requirement, be recorded in the accounts for the last month of the fiscal year.

⁵ In instances where the activity or other account cannot be charged at the time the voucher is recorded, it will be necessary to record the charges in a clearing account for later distribution to the appropriate activity or other account.

Cash Disbursements Register With Illustrative Transactions

Date of entry	Voucher No.	Explanation	Accounts to be credited		Accounts to be debited										
			Fund balance with U.S. Treasury		Accounts Payable		Activity accounts					Other accounts			
			Current year, 1004	Prior year, 1005	Government agencies, 2004	Others, 2005	Activity A, 5100	Activity B, 5200	Activity C, 5300	Activity D, 5400	Activity E, 5500	Account No.	Amount		
July 1	1	Payroll ending June 24—compensation		\$131,102.00	\$37,617.00	\$93,485.00									
		Payroll ending June 24—benefits		9,126.00	9,126.00										
	2	Rent for month of June		19,000.00	19,000.00										
	3	Supplies received in June—P.O. 98178		269.50		269.50									
	4	Travel advance—Hayes	\$360.00										1114	\$360.00	
	5	Travel voucher—Lester A. Lester—June		128.60		194.60							1114	(66.00)	
	6	Supplies and materials—P.O. 98180	442.96					\$442.96							
	7	Equipment—P.O. 98182	50.00										1524	50.00	
	8	Freight on P.O. 98180	46.00					46.00							
	9	Payroll ending July 8—compensation		58,022.00	15,289.00	42,733.00									
		Payroll ending July 8—benefits		6,077.00	6,077.00										
		Payroll ending July 8—compensation	104,687.00				\$38,790.00	13,116.00	\$13,818.00	\$17,975.00	\$20,968.00				
		Payroll ending July 8—benefits	9,287.00				3,363.00	1,223.00	1,202.00	1,666.00	1,833.00				
	2	Telephone bill	382.00					382.00							
	11	Payroll for temporary labor, July 10—14—Compensation	993.00					993.00							
		—Benefits	31.00					31.00							
	12	Equipment, 4 cameras, P.O. 98181	7,920.00										1524	7,920.00	
	13	Freight on P.O. 98181	52.00										1524	52.00	
	14	Travel voucher—Frank Jones	229.00					229.00							
	15	Equipment (order placed June 28)—P.O. 98179		388.00									1524	388.00	
	16	Payroll ending July 22—compensation	157,737.00				60,033.00	20,901.00	23,073.00	25,072.00	28,658.00				
		Payroll ending July 22—benefits	8,965.00				3,421.00	1,811.00	1,262.00	1,170.00	1,301.00				
		Summary of all other transactions for July:													
		Travel vouchers paid	5,798.00				2,050.00		1,077.00	1,273.00	1,308.00				
		Transportation vouchers paid	646.00				232.00		203.00	141.00	70.00				
		Rent, communication, and utility vouchers paid	26,343.00				10,022.00		4,544.00	5,285.00	6,492.00				
		Supplies and materials vouchers paid	9,993.00				4,519.00		1,921.00	2,082.00	1,471.00				
			333,851.96	224,113.10	87,109.00	136,682.10	122,430.00	39,174.96	47,100.00	54,664.00	62,101.00			8,704.00	
													1114	294.00	
													1524	8,410.00	
														8,704.00	

Illustration of voucher for payroll

Details for the voucher in support of the July 8 payroll, part of which was accrued during the prior year, are illustrated as follows:

Standard Form No. 1166
7 G.A.O. 5040
1166-104

VOUCHER AND SCHEDULE OF PAYMENTS

Sheet 1 of _____

Federal Agency

(DEPARTMENT OR ESTABLISHMENT)

BUREAU OR OFFICE			D. O. Voucher No. _____
LOCATION OF TRANSMITTING OFFICE	STATION NO.	D. O. SYMBOL	Bu. Schedule No. _____
APPROPRIATION SUMMARY: (SYMBOL AND AMOUNT) Appropriation 4411234 - \$ 64,099.00 Appropriation 4421234 - 113,954.00			PAID BY

BUREAU VOUCHER NO. (1)	PAYEE, AND IF NECESSARY, ADDRESS, INVOICE NO. OR OTHER IDENTIFICATION (2)	AMOUNT (3)	D. O. CHECK NO. (4)
	<u>Payroll for period 6/25 through 7/8</u>		
	Net Payments to Employees \$114,217.16 U.S. Civil Service Commission 33,527.89 CSC Retirement \$21,272.96 Life Insurance 5,817.66 Health Insurance 6,437.27	\$147,745.05	
	Other payroll deductions Savings Bonds X6050 3,100.00 Federal Taxes F0101 27,207.95 Income 26,707.95 FICA 500.00	30,307.95	
	Details of information to be posted to general ledger and subsidiary accounts are contained on the attached sheet.		
	Pursuant to authority vested in me, I certify that the items listed herein are correct and proper for payment from the appropriation(s) designated.	GRAND TOTAL	\$178,053.00

(Date)

(Authorized certifying officer)

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of the cost of (1) materials and supplies and (2) rent, communications, and utilities, respectively. Although not illustrated, the journal vouchers would contain detail information for posting to the subsidiary accounts maintained by object class.

Journal Vouchers

Date	Reference	Explanation	Debit	Credit	
July 31	JV 6	5100—Activity A	\$19,472.00		
		5200—Activity B	11,758.00		
		5300—Activity C	12,640.00		
		5400—Activity D	13,871.00		
		5500—Activity E	14,114.00		
			2004—Accounts payable—Government agencies		\$27,065.75
			2005—Accounts payable—others		44,789.25
			To record the accrual of payroll costs for period July 23-31 as per working papers of accrued payroll. (See p. 15.)		
	JV 7	5100—Activity A	1,533.00		
		5200—Activity B	1,074.72		
		5300—Activity C	340.00		
		5400—Activity D	350.00		
		5500—Activity E	300.00		
			2005—Accounts payable—others		2,071.34
			2006—Accrued transportation and travel allowances		1,526.38
			To record the accrual of travel and transportation expenses for vouchers submitted but not paid and also for amounts accrued but for which vouchers have not yet been submitted. (See p. 15.)		
	JV 8	5200—Activity B	2,992.00		
		2004—Accounts payable—Government agencies			1,720.00
		2005—Accounts payable—others			1,272.00
			To record the cost of supplies and materials received but not yet paid for, as per outstanding invoices and receiving reports. (See p. 15.)		
JV 9	5100—Activity A	4,000.00			
	5200—Activity B	5,000.00			
	5300—Activity C	1,000.00			
	5400—Activity D	1,065.00			
	5500—Activity E	500.00			
			2004—Accounts payable—Government agencies		5,071.25
			2005—Accounts payable—others		2,421.24
		2007—Other accrued and unbilled liabilities		4,072.51	
		To record the accrual of rent, communications, and utilities as per invoices submitted but not paid and also for amounts accrued but not yet invoiced. (See p. 15.)			

Property accounting—materials and supplies

In this illustration, materials and supplies are charged to expense when acquired.

An alternate practice is to enter such items in an inventory account when received and transfer them to expense when used. The method to be used depends upon the relative significance of the expenditures for materials and supplies. The practice of charging materials and supplies to expense when consumed will produce the more accurate cost information by periods and provide a means of better control of such items. However, it requires the establishment of an inventory account and the adoption of some form of inventory pricing such as first in, first out, average cost, etc. The question of whether materials and supplies should be charged to expense when acquired or when issued from stock is a matter that has to be evaluated in each case. Among the considerations to be weighed is whether the costs of maintaining an inventory account and related issue and pricing procedures are warranted by the increased control and more accurate cost information.

Property accounting—fixed assets

Fixed assets, such as operating equipment and furniture and fixtures, are capitalized in the accounts. Subsidiary records are maintained on a composite basis in lieu of individual item records.

For the hypothetical agency, the investment in depreciable fixed assets is considered large enough to warrant recording depreciation on them and including such cost in the monthly cost reports. Depreciation expense is therefore recorded in the activity accounts over the estimated useful life of these assets. Simple methods are used to determine the periodic amounts of depreciation expense to be recorded with the objective of obtaining a reasonable degree of accuracy without resorting to elaborate and time consuming procedures.

For the month of July, the following entry was made to record depreciation of equipment and office furniture and fixtures:

JV 10—5100—Activity A.....	\$6,130
5200—Activity B.....	3,860
5300—Activity C.....	3,860
5400—Activity D.....	3,860
5500—Activity E.....	4,570
1526—Accumulated depreciation—equipment.....	\$12,370
1257—Accumulated depreciation—office furniture and fixtures.....	9,910

To record depreciation for the month of July as per working papers.

Accounting for leave

For this illustration, no separate accounting for accrued annual leave is made during the fiscal year. The minimum requirement for accounting for annual leave, under the principles and standards prescribed by the Comptroller General, is that the liability for employees' annual leave earned but not taken or disallowed should be determined at least annually and recorded in the accounts as of June 30.

Accordingly, the accrued liability as of the end of the fiscal year is determined and the accounts are adjusted to show the net change during the year. Since the first month of the year is illustrated rather than the last, no entries are shown for annual leave.

The entry to record an increase in liability consists of a debit to the appropriate activity expense accounts and an offsetting credit to the liability for accrued annual leave. The annual leave expense should be distributed to the activity accounts on some equitable basis.

Revenues and receivables

Accruals for income or other items involving receivables are not illustrated since this type of transaction generally does not constitute an unusual problem for an agency of this type.

Accounts receivable that do arise are recorded at the time the sale or other type of transaction is consummated and the amount due is known. Any receivables which have accrued and which have not previously been recorded are inventoried and accrued as of the end of each month. (As noted on p. 8, the chart of accounts included herein does not include all accounts generally needed by this type agency. Among those omitted are accounts for the receivables and revenues.)

Object classification data

The classification of obligations incurred by object class needed for the preparation of the annual budget is obtained from the general ledger and subsidiary cost accounts by the addition of undelivered orders classified by object at the end of the period.

It is recognized that there are other satisfactory methods of obtaining object classification data which may be more appropriate in a given case. Each agency should devise a method to obtain this information that best fits its situation. However, consideration should be given to making maximum use of the general ledger and subsidiary accounts for this purpose in order to minimize the work involved.

Determination of cost by activities

The activity accounts are maintained to accumulate cost information (on the accrual basis) by activities and organizational units for reporting monthly to management for information and control purposes. Cost information so developed also supports the annual budget justification as required by Public Law 863, approved August 1, 1956.

Costs are recorded in the activity accounts at the time disbursements are made and, at each month end, accrued costs are added. The subsidiary accounts, by object class, are posted from distribution details placed on the disbursement documents and journal vouchers.

In this illustration, costs are distributed to activities and organization units on the following bases:

<i>Cost item</i>	<i>Basis of distribution</i>
Personal services and personnel benefits.	Services rendered.
Travel -----	Activity for which travel was performed.
Supplies and materials -----	Unit ordering the supplies and materials and for items ordered for stock, on the basis of past experience.
Rent, heat, light, and power ----	Space occupied.
Communications -----	Number of telephones or specific identification.
Depreciation -----	Assignment of equipment and office furniture and fixtures.
Transportation of things -----	Same basis as supplies and materials or specific identification.

The distribution of personnel costs is obtained from the payrolls which are prepared in accordance with the project, branch, or division for which personnel perform their services (see p. 20). Time reports are prepared only when there is a deviation from the foregoing procedure, i.e., when an individual performs services for a unit of the agency other than the one to which he is assigned.

In instances where the amount applicable to an activity or other account is not known at the time of original recordation, it will be necessary to charge the payroll and other items to a clearing account pending ascertainment of the distribution to be made to the activity or other accounts on the basis of individual time reports or other appropriate information. Balances in clearing accounts should be distributed prior to the preparation of monthly reports.

Reports

Cost reports

Monthly cost reports are prepared to disclose the costs incurred for each activity and project. These reports are prepared in comparative form

to show the current month's costs and their relation to the budgeted amounts. For the reports in this illustration, administrative and supervision costs applicable to each activity are not separated; however, in actual practice an agency may wish to have this cost reported separately from other costs.

Cost reports are prepared for each activity by project and organizational unit and for the agency as a whole. They include:

- Individual project cost reports.
- Activity cost reports.
- Division cost reports (consolidation of three activities in division).
- Cost summary for all activities of the agency.

Each higher level report consists of a consolidation of the reports on the lower levels. For example, the cost report for activity B, Branch No. 1 consists of the totals from the reports for projects (A), (B), and (C) and the cost report for division B consists of totals from the reports of activity B—Branch No. 1, activity C—Branch No. 2, and activity D—Branch No. 3.

In addition to comparisons with monthly budget amounts, other comparisons can readily be provided for, depending upon the wishes and needs of the management. For example, provision can be made for (1) comparisons between the cost incurred during the current month and the same month during the previous year, and (2) comparisons between the cumulative costs incurred for the year to date and for the same period in the previous year.

To the extent practicable, it is desirable to make comparisons in terms of what has been accomplished for the costs incurred in relation to the plans and cost estimates therefor.

Examples of cost reports designed for the agency described in this illustration are as follows:

Cost Summary—All Activities—July

	Actual	Budget	Under or (over) budget
<i>By activity</i>			
Activity A—Division A.....	\$161,854	\$162,190	\$336
Activity B—Division B, Branch No. 1.....	61,470	61,600	130
Activity C—Division B, Branch No. 2.....	65,537	66,343	806
Activity D—Division B, Branch No. 3.....	74,413	74,710	297
Activity E—Administrator's Office and Office of Administrative Services.....	74,486	74,720	234
Total costs.....	437,760	439,563	1,803
<i>By object</i>			
Personal services and benefits.....	353,535	353,720	185
Personnel compensation.....	326,150	326,307	157
Personnel benefits.....	27,385	27,413	28
Contractual services and supplies.....	61,945	63,523	1,578
Travel and transportation of persons.....	9,535	9,963	428
Transportation of things.....	692	905	213
Rent, communications, and utilities.....	38,290	38,435	145
Supplies and materials.....	13,428	14,220	792
Depreciation.....	22,280	22,320	40
Total costs.....	437,760	439,563	1,803

Cost Summary—Division B—July

	Actual	Budget	Under or (over) budget
<i>By activity</i>			
Activity B—Branch No. 1:			
Project (A).....	\$18,093	\$17,995	(\$98)
Project (B).....	20,129	20,235	106
Project (C).....	23,248	23,370	122
Total.....	61,470	61,600	130
Activity C—Branch No. 2			
Total.....	65,537	66,243	606
Activity D—Branch No. 3			
Total.....	74,413	74,710	297
Total costs.....	201,420	202,653	1,233
<i>By object</i>			
Personal services and benefits.....	161,582	161,620	38
Personnel compensation.....	148,794	148,822	28
Personnel benefits.....	12,788	12,798	10
Contractual services and supplies.....	28,258	29,423	1,165
Travel and transportation of persons.....	4,344	4,713	369
Transportation of things.....	390	405	15
Rent, communications, and utilities.....	17,276	17,385	109
Supplies and materials.....	6,248	6,920	672
Depreciation.....	11,580	11,610	30
Total costs.....	201,420	202,653	1,233

Cost Summary—Activity B—July

	Actual	Budget	Under or (over) budget
<i>By project</i>			
Project (A).....	\$18,093	\$17,995	(\$98)
Project (B).....	20,129	20,235	106
Project (C).....	23,248	23,370	122
Total costs.....	61,470	61,600	130
<i>By object</i>			
Personal services and benefits.....	49,833	49,860	27
Personnel compensation.....	45,767	45,792	25
Personnel benefits.....	4,066	4,068	2
Contractual services and supplies.....	7,777	7,860	83
Travel and transportation of persons.....	1,804	1,310	6
Transportation of things.....	45	105	69
Rent, communications, and utilities.....	5,882	5,385	3
Supplies and materials.....	1,045	1,060	15
Depreciation.....	3,860	3,880	20
Total costs.....	61,470	61,600	130

Cost Report—Subactivity B1, Project (A)—July

	Actual	Budget	Under or (over) budget
Personal services and benefits.....	\$14,895	\$14,825	(\$70)
Personnel compensation.....	13,802	13,737	(65)
Personnel benefits.....	1,093	1,088	(5)
Contractual services and supplies.....	2,048	2,030	(18)
Travel and transportation of persons.....	146	150	4
Transportation of things.....	22	30	8
Rent, communications, and utilities.....	1,612	1,600	(12)
Supplies and materials.....	268	250	(18)
Depreciation.....	1,150	1,140	(10)
Total costs.....	18,093	17,995	(98)

NOTE.—As stated on p. 8, each manager of an organizational unit may exceed individual cost items in his budget as long as he does not exceed the total budgeted cost of the activity for which he is responsible. In this instance, the activity (B) is the branch and as long as the amount budgeted for the branch has not been exceeded (see p. 25), it is within the authority of the branch manager to exceed the estimated cost of individual projects.

The fact that the budget for this project has been exceeded does not constitute a violation of the Antideficiency Act and does not necessitate a revision in the budget. A revision in the budget should be made only when a change is made in the plans for the project or when it becomes apparent that the estimates are not realistic.

Cost Report—Subactivity B2, Project (B)—July

	Actual	Budget	Under or (over) budget
Personal services and benefits.....	\$16,436	\$16,450	\$14
Personnel compensation.....	15,042	15,055	13
Personnel benefits.....	1,394	1,395	1
Contractual services and supplies.....	2,643	2,725	82
Travel and transportation of persons.....	599	600	1
Transportation of things.....	50	50	50
Rent, communications, and utilities.....	1,460	1,465	5
Supplies and materials.....	584	610	26
Depreciation.....	1,050	1,060	10
Total costs.....	20,129	20,235	106

NOTE.—In addition to comparisons between the actual cost incurred and the amount budgeted, it would be desirable to show a comparison between the actual degree of completion of the project and the degree of completion that should be expected by the incurrence of \$20,129 of costs. Where appropriate, comparisons on degree of completion should be based on cumulative figures.

Cost Report—Subactivity B3, Project (C)—July

	Actual	Budget	Under or (over) budget
Personal services and benefits.....	\$18,502	\$18,585	\$83
Personnel compensation.....	16,923	17,000	77
Personnel benefits.....	1,579	1,585	6
Contractual services and supplies.....	3,086	3,105	19
Travel and transportation of persons.....	559	560	1
Transportation of things.....	24	25	1
Rent, communications, and utilities.....	2,310	-2,320	10
Supplies and materials.....	193	200	7
Depreciation.....	1,660	1,680	20
Total costs.....	23,248	23,370	122

Other financial reports

A report on the status of the agency's appropriation is prepared each month. A summary report for the agency is as follows:

Summary Statement of Status of Appropriation—July 31

Appropriation—current fiscal year.....	\$6,264,000.00
Less unexpended appropriation at July 31:	
Unapportioned appropriation.....	\$180,000.00
Unallotted apportionment.....	4,563,000.00
Unobligated allotments.....	1,008,148.32
Unobligated balance of appropriation.....	5,751,148.32
Unliquidated obligations (Undelivered orders)---	89,350.00
Unexpended balance of appropriation.....	5,840,498.32
Expended appropriation (accrual basis).....	423,501.68

The above information is utilized in the preparation of the Standard Form 133, Report on Budget Status, which is required to be submitted monthly to the Bureau of the Budget.

A report is also prepared on the status of the capital outlay budget as of the end of each month or at more frequent intervals when necessary. This report follows:

Status of Capital Outlay Budget at July 31

Acquisitions during month.....	\$8,410
Less: Amount financed from prior year appropriation.....	388
Acquisitions financed from current appropriation.....	\$8,022
Equipment on order at end of month.....	86,388
Balance of first quarter budget available.....	21,442
Total capital outlay budget—first quarter.....	115,852
Capital outlay budget—remainder of year (unavailable this quarter)---	20,148
Total capital outlay budget—current year.....	136,000

NOTE.—The acquisition of capital property is the responsibility of the Office of Administrative Services which budgets for these acquisitions. Where appropriate this type of report should show a classification of the type of property, the activity for which acquired or ordered and the acquisitions made during the period compared with those budgeted for the same period.

In addition the agency also prepares other financial reports which are not illustrated in this booklet, such as:

Statement of assets and liabilities.

Statement of sources and application of funds.

Reports required by central control agencies, such as Apportionment and Reapportionment Schedule required by the Bureau of the Budget and Inventory Report on Real Property required by the General Services Administration.

PART III

General Comments

Administrative Costs

For properly designed, or redesigned, accounting systems, the use of accrual accounting techniques should not result in additional administrative costs.

If existing fund control and obligation accounting techniques, which are quite elaborate in many instances, are left unchanged and additional procedures are superimposed to provide financial data on the accrual basis, an increase in administrative costs will probably result. However, this approach to making improvements in accounting systems to accomplish the various objectives required is neither desirable nor appropriate. A complete redesign of procedures to eliminate those that are costly and unnecessary and to devise new ones that will produce all data needed is required.

The methods described in this booklet illustrate a considerably more simplified approach to fund control with the introduction of accrual accounting and cost-based budgets than actually exists in many agencies.

In agencies where it is concluded to be desirable to provide in the accounts approximately the same extent of financial analysis of operations (by activity, organization, program, project, etc.) as is presently provided by a system maintained on an obligation basis, the kind of procedures illustrated in this booklet should result in no increase in administrative costs.

On the other hand, if an agency's accounting system is materially deficient to start with (e.g., does not have monetary property accounting, does not provide complete and adequate data on costs of operations for management use, etc.), the installation of procedures similar to those illustrated will probably result in additional administrative costs. However, any such increase in costs will be more attributable to the correction of existing deficiencies than to the use of accrual accounting techniques.